



To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: January 16, 2011  
Re: Will Small Businesses Pay Their Bills?

“90% of fraud is committed by good people” was the welcoming I received in a fraud accounting continuing education course I attended. “How could a good person commit fraud?” I asked myself. Relatively easy is the answer. Humans have the ability to rationalize their actions. In fraud, the usual rationalizations are: I am underpaid; I didn’t get my bonus; I worked a Saturday and wasn’t paid for it; and I was going to repay it. Why would I mention fraud in a small business article? Many small businesses are beginning to rationalize why they don’t have to pay a bill. The longer the bill is outstanding, the easier it is for small businesses to rationalize why not to remit payment. This is theft, which many businesses will not have the resources to safeguard against.

Let’s face it, the last several years small business has been tough! Especially if your business depends on other small businesses or consumer spending! The problems began as early as 2002 – 2005 when small business models no longer made sense. However, most owners were unaware of their risks because they were cash flowing. It was one of the issues in their business model, debt financing. The reasons the business was cash flowing was due to increases of debt rather than profitability. Even if profits were growing they were not out pacing debt increases.

Even as the economy slowed in later 2007 and 2008 the pain was not felt because financial institutions continued to increase credit card limits, line of credits and other debt service instruments. It was not until late 2008 and 2009 when financial institutions began changing their loan requirements. The stricter loan requirements disallowed renewals and called line of credits (many saw their line of credit turned into a term loan) and credit limits were reduced, not increased as usual. 2009 was not an emotionally fulfilling year for many. 2009 was a wake up and smell reality year.

2009 and 2010 were challenging for small businesses on many fronts. If your small business depends on other small businesses or consumer spending you witnessed: negative revenue growth for multiple years; margins continued to shrink (collapse?); clients took longer to pay; clients were more volatile in purchase decisions; and repeat clients were no longer loyal (they’d leave you to save \$1, literally). This is about the opposite of what happened to “Corporate America” and which was reported on the evening news and newspapers (i.e. stable revenues and an incredible profit margin expansion).

A lot of these types of owners believed the recession would be light and over soon. Anything perceived as negative news was simply not listened to or tolerated. Small business owners are optimist and optimists generally only want to hear good news.

The belief structure of optimism and denial of a longer term recession resulted in many business owners not changing their business or personal life style. 2009 was mentally crushing to them when financial



institutions forced them to make adjustments (lower) their life-style. This caused some harsh feelings (no one seems to like banks) and stress and, perhaps bitterness for having to eat hot dogs at home instead of steaks at restaurants.

As you can imagine, or have dealt with in your own life, when you are forced to reduce your life-style it does not make an easy journey. A lower life-style can make you depressed and longing for better times (remember when...). It is mentally difficult to change in the first place and being forced to change to a lesser life style is bruising.

Wanting the better life-style when you can't afford it and can no longer finance it encourages these individuals to rationalize delayed payment or not paying their bills. They rationalize that they deserve the better life style and financially, to afford the life style they want to meet, current payment obligation are not possible. These individuals begin to rationalize why they no longer have to immediately pay their bills, "I will pay it next week". After a few weeks these individuals begin to rationalize the product or services they received no longer meets their expectations and use this to justify continued delayed payment or no payment at all.

2011 should show growth for small businesses. However, the financial position of the survivors is not pretty. Generally speaking, the survivors of the great recession have seen their financial position completely erode. There is minimal or no working capital (current assets – current liability) and the liquidity measure by the current ratio (current assets / current liabilities) is around 1 (this means there is no room for error – no wiggle room!). When this financial position tries to grow, due to revenue increases, the financial and cash flow pressure on working capital and liquidity will increase (it will be immense). Growth might feel just as painful as the recession.

With the background and current financial position disclosed and human nature mentioned, one might wonder if the morality of small business is being tested. Will small businesses pay their bills or will they place themselves first? Will the desire to live their life-style trump their moral obligation to pay their vendor's bills?

Will you be able to collect from your customers this year? What if the economy only stays the same? What if the economy has a bump or two? What if the economy improves, but gas prices and interest rates increase (whipping out additional demand and cash)? Even in an improving economy, economic results for small business can still be under a lot of pressure.

To safeguard your business be certain you know your clients. Additionally, have a credit card on file to automatically charge on your terms (so you do not have to wait for a check in the mail). Do not be "the nice guy" and do not work for free. I know you want to help someone out, but generally speaking, they are in this financial position for a reason and the likely hood they learned from their mistakes is minimal (people who make financial mistakes tend to continue make financial mistakes – habits are hard to break).



If you are going to be generous have a payment plan schedule, have the client sign a loan document with collateral and file the loan document with your county court house.

In conclusion, the road to recovery for many small businesses might not feel so rosy, due to eroded financial positions. If your business depends on small businesses or consumer spending, be certain you have safe guards in place to ensure timely payment. Don't lower your safeguards and be prudent with customer payments and collections of accounts receivable.

Mark Wyssbrod, Pro@ctive CPA, has been helping small businesses achieve their goals since 1999. His proactive philosophy stems from the fact that traditional tax preparers are usually simple historians who react to their client's prior and current positions. Such a reactive stance means trying to fix mistakes after those mistakes are already made. Mark would rather prevent any mistakes in the first place. These philosophies have contributed for Mark's ability to forecast the economy accurately since he started in 2005 which he uses to help his clients navigate the economic challenges they face. Mark is the Managing Member of Pro@ctive CPA, Managing Member of GA 400 Think Tank, LLC and CEO of Pro@ctive Updates. You can reach Mark at (770) 664-8583.

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